THE BOARD OF TRUSTEES OF THE COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING
September 9, 2014

Chairman Kate Marshall, State Treasurer, called the meeting of the Board of Trustees of the College Savings Plans of Nevada to order at 1:00 p.m., on Tuesday, September 9, 2014. The meeting was held by conference call from the Nevada State Capitol, 101 North Carson Street, Guinn Room, Carson City, Nevada to the Grant Sawyer Building, 555 East Washington Avenue, Suite 5100, Las Vegas, Nevada. Other attendees participated in person or by conference call.

Board members present:

Crystal Abba – Via teleconference
Ned Martin – Las Vegas
Janet Murphy – Carson City
Bob Seale – Carson City
Chairman Kate Marshall – Carson City

Others present:

Mark Mathers, Chief Deputy Treasurer
Tara Hagan, Senior Deputy Treasurer - North
Sheila Salehian, Senior Deputy Treasurer – South
Linda J. English, GGMS, College Savings Deputy Treasurer
Patricia Brady, Ascensus College Savings
Shane Chesney, Nevada Attorney General's Office
John Desmond, Gordon Silver
Brian Irvine, Gordon Silver
Eric White, PCA
Caroline Tucker, USAA
Bernie Williams, USAA
Domingo Villarruel, USAA
Paul Fulmer, USAA
Daniel Reyes, Vanguard
Stewart Duffield, Vanguard
David Kausch, Gabriel, Roeder and Smith

Roll was taken, and it was determined a quorum was present. Ms. Salehian indicated the meeting had been properly noticed and the agenda was posted in accordance with the Open Meeting Law. Although the meeting was not emailed until a day before, Shane Chesney with the Nevada Attorney General's Office stated that the Open Meeting Law only requires for the agenda to be publicly posted.

1. Public Comment

There were no public comments in Carson City or Las Vegas.

Consent Agenda

2. For possible action: Board review and approval of the College Savings Board minutes of July 29th, 2014.

3. For possible action: Board review and approval of the Ascensus program manager's report encompassing results for Vanguard, USAA and SSgA Upromise 529 plans for the quarter ended June 30, 2014.

4. For possible action: Board review and approval of the Putnam 529 for America advisor sold program manager's report for the quarter ended June 30, 2014.

5. For possible action: Board review and approval of the Thomas & Thomas unaudited financial statements of the Nevada College Savings Plan compiled for the quarter ended June 30, 2014.

6. For possible action: Board review and approval of the performance report from Chicago Equity Partners, investment manager for the fixed income portfolio of the Nevada Higher Education Trust Fund (Prepaid Tuition Program), for the quarter ended June 30, 2014.

7. For possible action: Board review and approval of the Prepaid Tuition Investment Monitoring Report prepared by Callan Associates for the quarter ended June 30, 2014.

8. For possible action: Board review and approval of the Nevada Comprehensive Investment Plan and Investment Policy Statement for the Nevada Higher Education Prepaid Tuition Trust Fund.

Chairman Marshall asked if the Board members wished to take items to discuss separately. Hearing none, Chairman Marshall asked if there was a motion to approve the consent items. Bob Seale motioned to approve the consent items. Janet Murphy seconded the motion. The motion passed unanimously.

Discussion Agenda

Chairman Marshall informed the Board that Agenda Item 13 would be taken out of order and discussed first. Bob Seale stated that he would recuse himself from voting and participating on this item.

13. For possible action - Board review and approval of the settlement agreement with Treasury Solutions Holdings, Inc.

John Desmond and Brian Irvine of Gordon Silver represented the College Savings Board in a lawsuit against Treasury Solutions Holdings, Inc. in 2011. In this lawsuit, Treasury Solutions intended that the College Savings Board never closed the contract with Treasury Solutions and that they did not receive the fees it claimed it was owed pursuant to the agreement through 2031. The College Savings Board disputed those allegations and contended that Treasury Solutions was paid all sums owed to it and the agreement had been terminated. The trial was originally set for early spring and summer. Since then, they have stipulated with Treasury Solutions to vacate the trial date. Treasury Solutions Holdings claimed damages at trial against the State in the range of $12 million to $23 million dollars. Gordon Silver believes that the College Savings Board has good arguments against liability; however, going to trial presents a risk to the State and the College Savings Program. Given the risk and discussions, Gordon Silver and Treasury Solutions reached a settlement at a fraction of the claimed damages. In 2009, Treasury Solutions filed a complaint against Upromise and Vanguard asserting causes of action against those entities for the interference with the contract that the State had with Treasury Solutions. That case, following the appeal to the 9th Circuit Court of Appeals remains pending before the United States District Court for the District of Nevada in Reno. The case has relevance to terms of this offer.

The terms of the settlement state that the College Savings Board would pay into escrow $850,000 from its endowment account. Once this money is paid, it would be deemed as full and final satisfaction of the claims. The lawsuit between the State and Treasury Solutions would be dismissed with prejudice. The money would not be paid directly to Treasury Solutions; it would be paid into an escrow account pending the resolution of the lawsuit against Upromise and Vanguard pending the federal court. If Treasury Solutions were to recover at least $850,000 for its claims against Upromise, whether that comes through settlement or judgment, then the College Savings Board would receive a refund of $425,000. Likewise, if Treasury Solutions were to recover at least $850,000 for its claims against Vanguard, then the College Savings Board would receive a refund of $425,000 from the escrow account. If Treasury Solutions were to recover at least $1.7 million collectively, then the College Savings Board would receive a full refund of $850,000. On the other hand, if Treasury Solutions were to recover less than $850,000 for its claims against Upromise, then $425,000 would be released to Treasury

Solutions and its trust fund. Similarly, if Treasury Solutions were to recover less than $850,000 for its claims against Vanguard, then $425,000 would be released to Treasury Solutions. In no event would the Board ever pay more than $850,000 under this settlement proposal. The College Savings Board could end up paying as little as $425,000 or even $0. Gordon Silver will continue to monitor the Upromise litigation on behalf of the Board, and Treasury Solutions will be obligated to provide them with periodic status reports on the litigations as well as copies of any settlement agreements reached with Upromise or Vanguard.

Based on this discovery, Gordon Silver recommends that the Board votes to approves the settlement and authorize Treasurer Marshall to finalize and execute an appropriate settlement agreement release, which Gordon Silver has already drafted and has been reviewed and approved by Treasury Solutions.

Crystal Abba joined the conference call at this time; thus, John Desmond explained the review once again.

Ned Martin asked John Desmond if by agreeing to this settlement, it completely closes any future claims to which Mr. Desmond responded that it does. Mr. Martin also asked if there is any exposure from the other entities involved. John stated that the Board has a release of any potential indemnity claim from both Upromise and Vanguard.

Crystal Abba gave a motion and Ned Martin seconded the motion to approve the settlement agreement and the proposal as outlined with Treasury Solutions Holdings, Inc. Bob Seale abstained from the voting. The motion passed unanimously.

9. <u>For possible action - Board receipt of a presentation from Vanguard regarding a proposed reallocation of program management fees between portfolios and provide direction, if appropriate.</u>

Stewart Duffield and Dan Reyes of Vanguard reported on the possible restructuring of the Program Management Fees within the Vanguard 529 plan. The price reduction was approved on July 29, 2014 and became effective September 1st. Vanguard reviewed variations of the Program Management Fees among the Individual Portfolios, and they found that they could take two different approaches. The first approach is to take Program Management Fees, realign them and spread the smaller increases across several portfolios and lower the fees that appear to be misaligned. The second approach is to target relatively larger Program Management Fees and take those larger fees and impact a smaller number of portfolios. Vanguard included a hypothetical scenario that outlines the second approach. In order to realign the Program Management Fees by taking relatively larger increases and concentrating them on fewer portfolios, Vanguard would have to increase fees on five portfolios while decreasing fees to 3 portfolios. These 8 impacted portfolios represent about 22% of the plan's assets and touch 27% of all of the accounts in the plan.

One of the benefits of realigning the fees is that account owners with multiple Individual Portfolios would now have a relatively consistent experience across the portfolios they own. The total portfolio expenses would still vary due to differences in the Underlying Expense Ratios. The other benefits include that three portfolios would see declining Total Expense Ratios of 1 basis point to 6 basis points. These decreases would touch 11% of the accounts in the Plan as well as 7% of the Plan's assets. The largest decrease under this hypothetical scenario is to the Total International Stock Index. The drawbacks to realigning the fees are that five portfolios would see increased Total Expense Ratios of 1 basis point to 5 basis points. The fee increases would touch 16% of the accounts and 15% of the Plan's assets. Dan Reyes explained that by doing this, they would be negatively impacting more accounts that they are positively impacting accounts. Vanguard suggests being mindful that any move to realign the fees would be in the context of the most recent price reduction that was effective September 1st, 2014 and the Public Relations impact. Vanguard recommends that if the Board is going to streamline program management fees, the best way to do it is via targeted reductions in any future price reductions that the Plan puts forward. Vanguard believes that the appropriate time to streamline the Program Management Fees would be during the next price discussion.

Chairman Marshall stated that Staff would like a commitment to revisit the realignment of the Program Management Fees within the next $1.5 billion. Bob Seale asked if it would be two years before the fees were implemented to which Dan Reyes answered that that's what potentially could happen. Mr. Seale also asked what would happen if they realigned the fees on staff's recommendations. Mr. Reyes responded that 16% of the accounts would have a fee increase and 11% would have a decrease if the fees were realigned now rather than two years from now. Ned Martin asked what was the driving force behind wanting to make the fees uniform. Mark Mathers responded that it was an equity concern. The Program Management Fees are paid for administrative costs, so it's hard for staff to see why some people have to pay more than others. Bob Seale then asked if there was a scenario where Vanguard could do this in less than two years. Dan Reyes responded that their concern is to commit to a price increase. Crystal Abba announced that she was very concerned about the drawback and that there would be more of a negative impact than positive impact if the fees were changed now. She asked what would be the downside of implementing the fee changes in the future rather than now. Mark Mathers responded that the same concerns would be there two years from now, but it will reduce the blow; thus, he stated that staff is happy to relook at the fees at $12 billion and that there is recognition that fees need to be realigned.

Bob Seale moved to accept option #3 from Vanguard, and rather than change fees as shown, to implement a gradual alignment of the program management fees over time in conjunction with future fee reductions. Ned Martin seconded the motion. The motion passed unanimously.

10. <u>For possible action – Board review and approval of the Nevada College Savings Plans Investment Monitoring Report prepared by Pension Consulting Alliance, Inc. for the quarter ended June 30, 2014.</u>

Eric White of PCA reported that Jeremy Thiessen has left the firm and went to TIAA-Cref; thus, going forward, Mr. White will be bringing along additional people with him to the meetings. This time, he brought along Kay Ceserani to help in the discussions.

Ms. Ceserani explained that on the "Watch" memo, there are currently 3 funds that continue to be on watch for the past nine months. The 3 funds include: S&P World ex-US ETF, SPDR International Small Cap ETF and DB International Government Inflation-protected Bond ETF. S&P World ex-US is improving. The International Small Cap is still bouncing due to the small universe of funds. The Government Inflation-protected Bond is improving, and PCA anticipates that it will be taken off the "watch" list. In the Putnam 529 for America Program, there is one fund that qualifies for "watch" which is the Putnam International Capital Opportunities. There are no funds that qualify for "watch" or are currently on "watch" in the Vanguard 529 Program.

Chairman Marshall asked Kay Ceserani if PCA was recommending placing the Putnam International Fund on "watch" to which Ms. Ceserani responded yes. Mark Mathers asked Mr. White if they will be removing the S&P SPDR International Government Inflation-protected Bond. Eric White responded that PCA discussed whether to remove this fund from the "watch" list this quarter or wait until next quarter. However, he stated that PCA was happy to remove it this quarter.

Crystal Abba motioned to approve the Investment Monitoring Report for the Nevada College Savings Plans and to remove the SPDR International Government Inflation-protected Bond from the "watch" list as well as add the Putnam International Fund to the "watch" list. Bob Seale seconded the motion. The motion passed unanimously.

11. <u>For possible action – Board review and approval of the annual investment presentation for the USAA 529 College Savings Plan.</u>

Caroline Tucker, Bernie Williams, Paul Fulmer and Domingo Villarruel presented USAA's Annual Investment Review. Bernie Williams stated that the GDP growth forecast is favorable, that he has seen forecasts as high as 4% for the third quarter. He reiterated that this was simply an estimate and not an absolute measure, but it does point that the economy is doing better.

Ms. Tucker informed the Board that it has been about 10 years since USAA has changed the Glide Path. She explained that USAA took into consideration that their members were asking for more investment options; thus, they wanted to create a wide variety of portfolio options and expand the Glide Path. Their ultimate goal is to smooth out the glidepath and to decrease the volatility in the years closer to college. USAA has also increased the portfolios in the Glide Path from 6 portfolios to 9 portfolios. Bernie Williams explained the strategic asset allocations. USAA also proposed to take out the USAA Precious Metals and Minerals Fund because the fund was too volatile. Mr. Williams explained that they believe the USAA Real Return Fund is the better way to handle inflation. As a whole, asset classes should represent the broadest investible universe and what they should invest in. Domingo Villarruel explained that USAA did three high level things. The first one being that USAA wanted input from their Enterprise Advice Group, who provides guidance on financial planning to the USAA sales floor. They came to the conclusion that there is an appropriate time to have an allocation with a growth objective and also a time where the preservation of the capital should be the primary objective. USAA also did a competitive analysis as well as aligning the 529 portfolios according to the strategic asset allocations.

Bob Seale asked Domingo Villarruel if there were any commodities. Mr. Villarruel responded that USAA Real Return Fund is comprised of assets that tend to perform better in inflation environments. Caroline Tucker stated that the target implementation date for the proposed Glide Path is February of 2015. Bob Seale then asked why they don't have cash in any of the portfolios until the very last portfolio. He also asked if USAA worried about missing some opportunities by having cash on hand in some of the earlier portfolios. Bernie Williams responded that the allocation is designed to be strategic; therefore, there is no need to have cash when the child is 0-2 years.

Ned Martin made a motion to approve the annual investment review for the USAA 529 College Savings Plan which includes a smoother Glide Path that will be implemented in February 2015. Janet Murphy seconded the motion. The motion passed unanimously.

Chairman Marshall stated that if USAA's target date changed then they would need to inform the Board of these changes.

Eric White of PCA then came back to state that PCA reviewed USAA's proposed changes. PCA agrees that the Precious Metals Fund essentially adds volatility. PCA believes the proposed change has merit and therefore, recommends the Board adopt the change to remove the USAA Precious Metals and Minerals Fund from the age-based portfolios. However, PCA has a concern over USAA removing the inflation protection. Bernie Williams responded that USAA is not worried about inflation right now, but if inflation does come back they will be able to increase it. PCA believes that smoothing the Glide Path is a strong proposal by USAA. PCA also agrees there are many benefits in moving towards cash and fixed assets at the end of the Glide Path. Mr. White also noted that three funds are currently on "watch" status due to changes in portfolio managers. Performance has been rather strong; therefore, as long as nothing changes, PCA will recommend the removal of these funds from "watch" status next quarter.

Janet Murphy motioned to approve PCA's review of USAA. Bob Seale seconded the motion. The motion passed unanimously.

14. <u>For possible action – Board receipt of a report from R&R Partners dealing in-state outreach and education results for the SSgA Upromise 529 Plan.</u>

Yvette Wilson and Justin Gilbert of R&R Partners presented a report on the in-state outreach. Ms. Wilson informed the Board that R&R reached Mr. Gilbert, so he could do a Marketing Impact Analysis. Justin Gilbert reported that 36% of new accounts in 2013 happened in the last three months of the calendar year, which was after the media efforts began. The new accounts for 2013 outpaced 2012 by 46%. The second media effort began in March of 2014 and the number of new accounts grew at a faster rate. As of August 2014, the new accounts are 55% ahead of August 2013. The program is on track to exceed the number of accounts in 2013. Justin Gilbert informed that the rate of increase before the media effort (January through March 2014) was of 60.5 accounts per month. After the media effort began (April through June 2014), the rate increased to an average of 86 new accounts per month. The growth rate through August 2014 is now about 103 accounts per month. The web traffic during media and non-media phases remained largely unchanged. However, the conversion rate of new accounts to visits is twice as large during media phases indicating more qualified traffic likely to open a new account.

R&R took a multichannel marketing approach which included paid media buy such as Pandora, YouTube and Hulu online ads. E-marketing is expected to grow by 49% through 2016. R&R also did more direct mail, collateral distributions, email blasts, sponsorships, events and giveaways as a way to increase awareness and brand recognition.

Chairman Marshall mentioned it was great to see the numbers and results of the media efforts.

Bob Seale motioned to accept the report from R&R Partners detailing the in-state outreach and education results for the SSgA Upromise 529 Plan. Janet Murphy seconded the motion. The motion passed unanimously.

12. <u>For possible action - Board review and approval of the 2015 pricing proposals for the Prepaid Tuition open enrollment period of December 1, 2014 to February 28, 2015 for contract sales.</u>

David Kausch of Gabriel, Roeder and Smith discussed the methodology of the pricing proposals for the Nevada Prepaid Tuition open enrollment. Mr. Kausch mentioned that in the pricing recommendations, GRS looks at three different factors: the overall plan structure, Board policies of plan funding and actuarial assumptions. The Board policy is to obtain and maintain a 120% of assets. 20% of that provides a risk reserve for adverse experience. In order to achieve that, GRS tries to add a risk reserve in the actual pricing. GRS recommended that the total margin be gradually increased rather than increasing the margin all the way to 20% in one year. This prevents a dramatic increase in pricing. GRS proposed a total margin of 16% for Universities and 6% for Community Colleges. For the 4 year University plan, the increase ranges from 0.9% to 3.6% and the ranges for the 2 year Community College plan are between 0.6% and 7.4%.

Bob Seale asked if the Board is pricing themselves out of the market with the Nevada Prepaid Tuition Program. Chairman Marshall responded that staff encourages people to have both a Prepaid Tuition plan and a 529 account since Prepaid Tuition only covers tuition costs. Ned Martin contributed that there is less risk in Prepaid Tuition especially during economic crisis. Mr. Kausch indicated that a 6.25% assumed rate of return is a long-term expectation over the whole life of the program based upon its investment policy.

Ned Martin motioned to approve the pricing assumptions. Bob Seale seconded the motion. The motion passed unanimously.

15. Staff Notes

Linda J. English mentioned that the CKS Kickoff would happen on September 11, 2014 at Libby Booth Elementary School and Lemmon Valley Elementary in Reno, NV. On September 23, 2014, the program would kick off in Las Vegas at Sandy Miller Elementary School. These media programs bring greater awareness to the program. Ms. English also mentioned that Count Day was scheduled for September 19th, 2014 which means that about 70,000 kids will be enrolled in the College Kick Start program after this date.

16. Public Comment

There was no public comment in Carson City or Las Vegas.

There was no further business; thus, Chairman Marshall adjourned the meeting at 2:54 p.m.

Attest:

Sheila Salehian

Sheila Salehian, Secretary to the Board